Investment Section

for Fiscal Year ending June 30, 2009

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Old One Room Schoool House
Salem, Kentucky

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the
Kentucky Teachers' Retirement System.

Mr. Paul L. Yancey, CFA
Chief Investment Officer

Mr. Philip L. Webb
Director of Investment Accounting

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Mr. Paul L. Yancey, CFA
Chief Investment Officer

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December 1, 2009

To the members of the Board of Trustees and participants of the Teachers' Retirement System of Kentucky:

The fiscal year ended June 30, 2009 saw the greatest crisis our financial system has experienced since the 1930s. An overleveraged system nearly collapsed in the fall of 2008 as real estate prices continued to decline, exposing a plethora of unsound lending and financial engineering practices, as well as inadequate risk control and regulation. Economic activity, already weak, plummeted in late 2008 and early 2009. An unprecedented array of government initiatives appeared to be stabilizing the markets and the economy by mid-2009.

While negative returns were unavoidable, the System's portfolio held up remarkably well in what we hope to be a once-in-a-lifetime event. The total portfolio returned -14.3% for the fiscal year versus -16.0% for its Policy Index. Domestic equities returned -25.5% versus -26.3% for the S&P 1500. International equities returned -27.5% versus -31.0% for the MSCI EAFE Index. Fixed income returned 7.2% versus 5.3% for the Barclays Government/Credit Index.

Just as importantly, the System's multi-year process of optimizing its asset allocation was not disrupted by the market turmoil. Over the fiscal year, international equities rose from 9.0% to 11.3% of assets. In late 2008, near stock market lows, over $500 million was rebalanced out of high quality bonds, with the funds going primarily into international and domestic stocks. The system made $165 million in private equity commitments over the fiscal year while other institutions, suffering liquidity crises, were considering selling commitments at deep discounts. At fiscal year-end, plans were in the pipeline to continue prudently adding alternative assets on an opportunistic basis.

The System underwent a best practices study to compare and contrast the operations, management and governance of the System to other leading public pension plans. In general, the study found that the System was either currently utilizing best practices or in the process of taking measures to do so. The report recommended eliminating the requirement for Board investment policies to be set forth in administrative regulations in order to facilitate and modernize the management of the System's investments as well as eliminating the diversion of pension contributions to fund the Medical Insurance Fund.

Over the course of the fiscal year, the Investment Committee was expanded to include five trustees plus two outside members with investment expertise. We expect this enhanced Investment Committee structure to be a tremendous benefit to the System's investment program in the years ahead. An asset-liability modeling study, which will help chart the asset allocation course for the next several years, is scheduled to be completed in early 2010.

The System's investment program, grounded in fundamental value and risk control, has shown exceptional resilience through the financial crisis. Looking forward, the System is well positioned to take advantage of market opportunities due to disciplined management prior to and during the market crisis. We believe the ongoing initiatives to broaden and expand the asset classes in which the System invests will better equip it to achieve the long-term goals.

It is a privilege to have been selected as investment consultant for the System and we look forward to our continued work with its exceptional investment staff, Investment Committee, and Board of Trustees.

Respectfully,

Patrick J. Kelly

Patrick J. Kelly, CFA
Principal

ENNIS, KNUPP & ASSOCIATES, INC.
10 SOUTH RIVERSIDE PLAZA, SUITE 1600
CHICAGO, ILLINOIS 60606-3709

VOICE 312 715 1700
FACSIMILE 312 715 1952
ENNISKNUPP.COM

INVESTMENT POLICY SUMMARY

The KTRS Board of Trustees has a statutory obligation to invest the members' assets in a manner consistent with the fiduciary standards set forth in the "prudent person rule." Consistent with these fiduciary standards, the board has recognized certain principles that guide investment-related decisions. First, the board will preserve the long-term corpus of the fund. Second, the board will seek to maximize total investment return within prudent risk parameters. Third, the board will act in the exclusive interest of the members and beneficiaries of the System. This broad summary is a reference point for management of System assets and outlines KTRS's investment philosophy and practice.

INVESTMENT OBJECTIVES

KTRS invests the members' funds in several diverse classes of assets, including equities, bonds and real estate. This diversification helps us earn the highest possible long-term rate of return within appropriate risk levels. In turn this enables us to pay guaranteed benefits to members and their beneficiaries at the lowest possible cost to participating employers and the taxpayers that fund them. Generally, the System's liabilities will not be paid for as many as 30-40 years. Therefore, as a long-term investor, KTRS holdings can withstand some short-term volatility. The System's long-term investment objective is to achieve an annualized rate of return of 7.5%.

RISK CONTROLS

The KTRS investment program faces various risks; however, the primary risk to KTRS is that the assets will not support liabilities over long periods of time. In order to control this risk and any other risks, the board has taken the following steps, on an ongoing basis:

- Actuarial valuations are performed each year to evaluate the funding objectives of the System. In addition, every ten years an external audit of the actuary is conducted to ensure that the assumptions made and calculation methods used are resulting in properly computed liabilities of the System.
- Asset/liability studies are conducted, at a minimum, every five years. These studies ensure that the portfolio design is structured to meet the liabilities of the System.
- The KTRS investment committee adopts, and regularly reviews, detailed investment strategies for implementation of the investment policy.

ASSET ALLOCATION

Operating within relevant regulatory limitations, the System's investment consultant, on an annual basis, presents to the Investment Committee for approval target percentages and ranges for the System's various asset classes. Annually approved asset allocation parameters serve to balance the System's liquidity requirements, volatility tolerance, and return requirements to meet both short-term and long-term obligations. The System's assets are diversified across a variety of asset classes, investment management styles, and individual securities in order to reduce volatility and enhance the potential of the investment portfolio to achieve the System's long-term goals.

Asset allocation decisions for pension plans are highly dependent on the unique characteristics of a particular plan. Factors such as liability requirements, the level of funding, and statutory investment restrictions are important considerations within the context of the asset allocation decision making process. Consequently, asset allocation comparisons between various pension plans may be quite different.

Rebalancing as necessary is normally strictly observed to remain within the approved ranges for the various asset classes. In this fiscal year, however, the Investment Committee suspended strict adherence to the approved ranges due to extraordinary market conditions.

The information below shows the System's asset allocation by market value as of June 30, 2009, and June 30, 2008, as well as the target and strategic range for each asset class for fiscal year 2009.

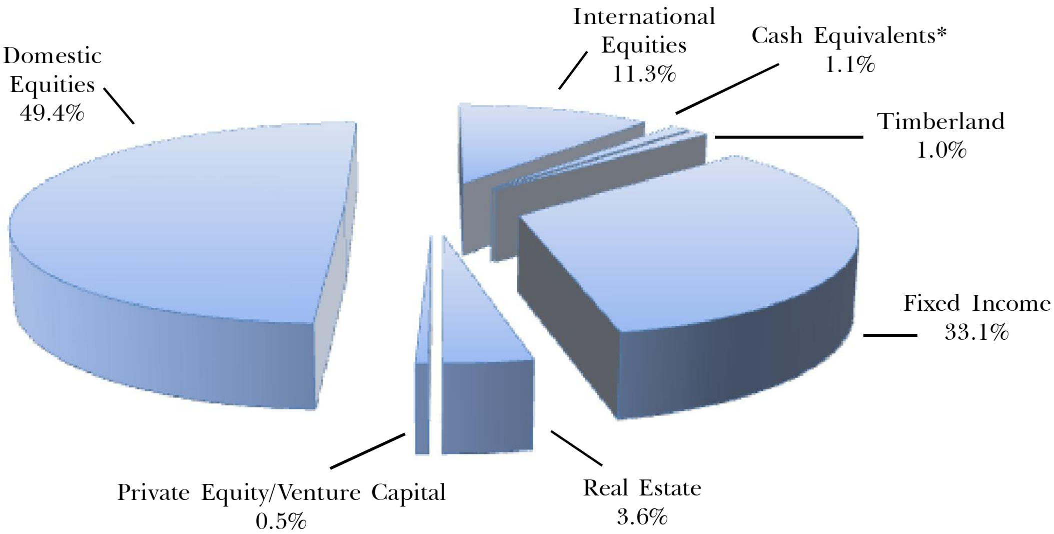
	June 30, 2009	%	June 30, 2008	%
Cash Equivalents *	$ 134,219,594	1.1	$ 221,260,264	1.6
Fixed Income **	3,865,135,688	33.1	4,381,342,566	30.8
Domestic Equities	5,784,174,002	49.4	7,815,837,500	54.9
International Equities	1,344,393,598	11.3	1,278,613,411	9.0
Real Estate	425,746,050	3.6	431,693,774	3.0
Private Equity	60,731,073	0.5	28,791,613	0.2
Timberland	116,599,371	1.0	75,995,962	0.5
Totals	$11,730,999,376	100.0	$ 14,233,535,090	100.0

* Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.

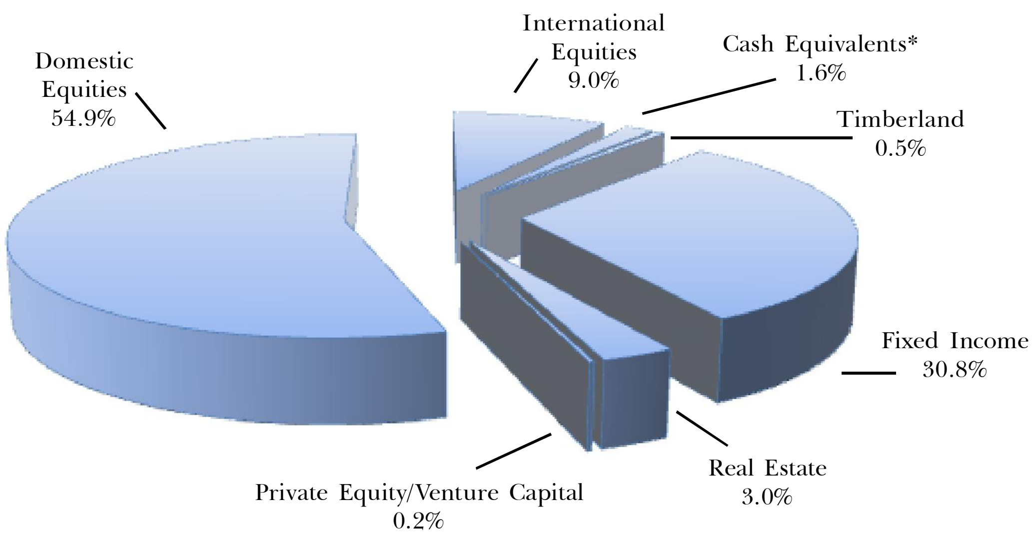
** Excludes purchased interest of $1,060,537 as of June 30, 2009 and $273,868 as of June 30, 2008.

Distribution of Investments
Market Values

June 30, 2009



June 30, 2008



* Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.

Asset Class	Regulatory Limits (Mkt Value)	Strategic Range (Mkt)	Target (Mkt)	6/30/2009 (Mkt)
Cash		2 - 4%	2.0%	1.1%
Fixed Income		25 - 32	28.0	33.1
Government/Agency/Other	Unlimited			18.6
Corporate	35%			14.5
Equity	65%	57 - 65	64.0	60.7
Domestic Large Cap		42 - 50	45.0	42.6
Domestic Mid Cap		3 - 6	5.0	4.1
Domestic Small Cap		2 - 4	3.0	2.7
International	15%	8 - 13	11.0	11.3
Real Estate	10%	3 - 5	4.0	3.6
Alternative Investments*	10%	0 - 2	2.0	1.5
Additional Categories	10%		0.0	0.0
TOTAL			**100.0%**	**100.0%**

This weighting reflects cash with manager in the manager's asset class.

* Alternative Investments includes Private Equity, Timberland, Venture Capital and Infrastructure investments.

PORTFOLIO RETURNS

In a twelve-month period which saw the climax of the most serious financial market crisis in decades, the System's portfolio generated a total return of -14.3% versus -16.0% for the benchmark Policy Index. Domestic equities returned -25.5% versus -26.3% for the Standard & Poor's 1500 Index, while international equities returned -27.5% versus -31.0% for the MSCI EAFE Index. Fixed income investments also outperformed, returning 7.2% versus 5.3% for the Barclays Government/Credit Index.

The table below outlines historical performance for the total fund and its component asset classes for the period ended June 30, 2009. The System's domestic equity and fixed income components, which have historically comprised a large majority of System assets, have exceeded the returns of their benchmarks with regularity over long periods of time. The System's returns were generated by the Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

	1 Yr.(2)	3 Yr.(2)	5 Yr.(2)	10 Yr.(2)	20 Yr.(2)
Total Fund					
KTRS	-14.3	-2.3	1.1	1.9	7.1
Policy Index(1)	-16.0	-	-	-	-
Equities					
Domestic Equities	-25.5	-7.9	-1.7	-1.3	8.4
S & P Blended Index(3)	-26.3	-8.2	-2.2	-2.2	7.8
International Equities	-27.5	-6.2	-	-	-
MSCI EAFE	-31.0	-7.5	-	-	-
Total Equities	-25.4	-7.6	-1.5	-1.2	8.5
Fixed Income					
Total Fixed Income	7.2	6.9	5.4	6.3	7.3
Barclays Govt/Credit Index	5.3	6.2	4.8	5.9	7.1
Real Estate					
Real Estate Equity	-30.4	-	-	-	-
NCREIF ODCE	-30.5	-	-	-	-
Triple Net Lease Real Estate	9.7	8.6	9.3	9.1	8.7
CPI plus 2%	0.8	4.1	4.6	4.6	4.8
Alternative Investments					
Private Equity(4)	-5.5	-	-	-	-
Timberland	6.3	-	-	-	-
NCREIF Timberland Index	3.3	-	-	-	-
Cash					
Cash (Unallocated)	1.1	4.1	3.9	3.6	4.7

(1) *Prior to July 1, 2008, KTRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index which represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.*

(2) *Annualized*

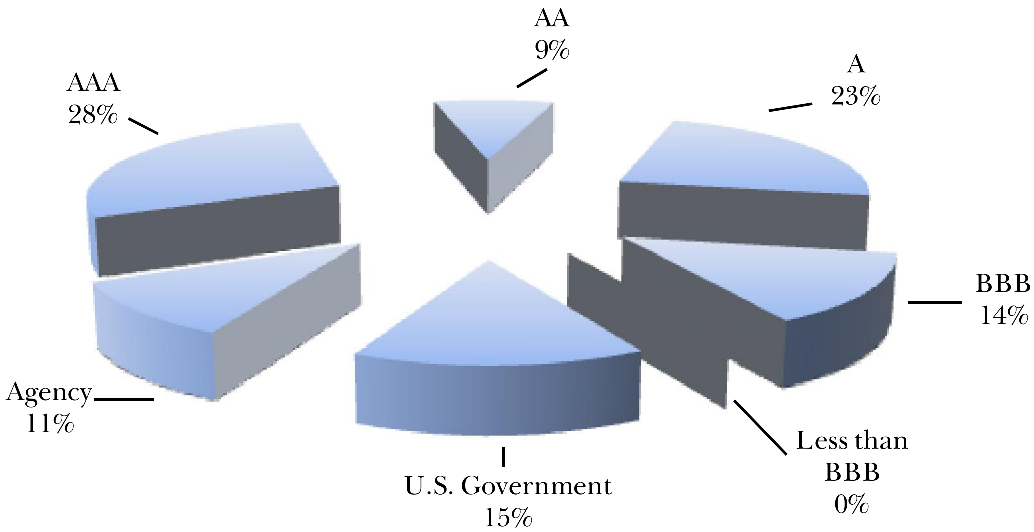
(3) *Total Domestic Equity is benchmarked to a S & P Blended Index. Total domestic equity was benchmarked to the S & P 500 through the fiscal year ending 6/30/2007. As of 7/1/2007, domestic equity is benchmarked to the S & P 1500 Index since the System's domestic stock mix is most comparable to this index.*

(4) *For a period of five years private equity will be benchmarked against their own returns. The primary reason for this is that these investments have a minimum investment horizon of ten years and there is no market benchmark that would be expected to track these types of assets in their early years. Beginning five years after the commitment date, investments in this class shall be benchmarked versus the S & P 500 plus 3%, which is the System's long-term expected return for this asset class.*

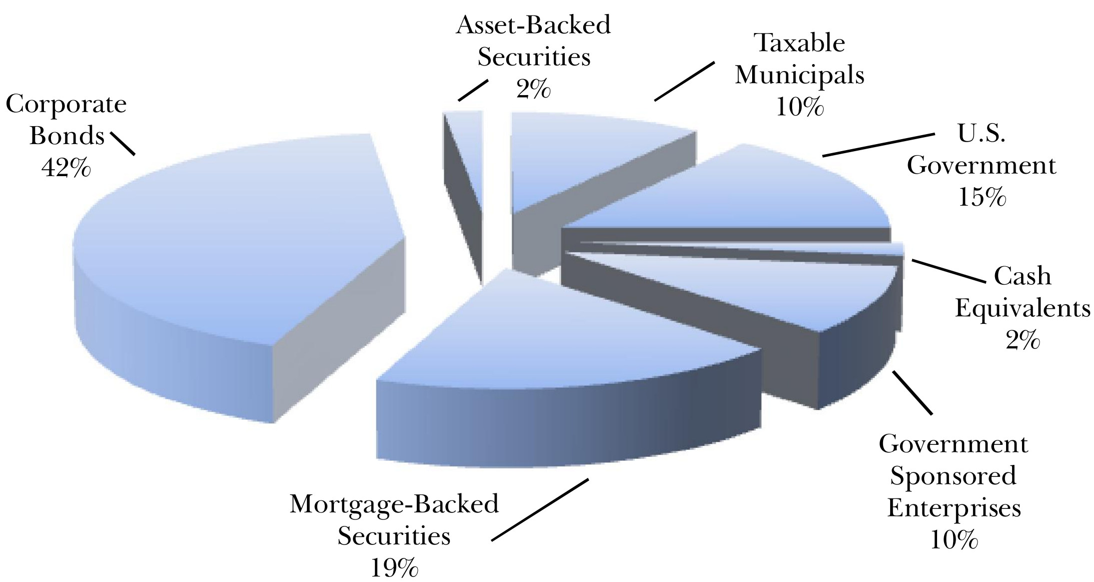
FIXED INCOME INVESTMENTS

As of June 30, 2009, the System had approximately $3.87 billion in fixed income assets, or 33.1% of total assets. Over $2.29 billion was managed internally with the remainder, or about $1.58 billion, managed by two external managers. The System's investment policy established by administrative regulation requires that all fixed income investments be rated investment grade at the time of purchase by one of the major rating agencies. The regulation further requires that the fixed income portfolio as a whole maintain an average rating equal to at least "AA" by one of the major rating agencies.

FIXED INCOME QUALITY DISTRIBUTION



FIXED INCOME SECTOR DISTRIBUTION



FIXED INCOME MARKET OVERVIEW

The credit market crisis which began in the summer of 2007 didn't peak until the fall of 2008. The federal takeover of Fannie Mae and Freddie Mac, the bailout of AIG, and the bankruptcy of Lehman Brothers all occurred within a couple of weeks in early to mid-September, 2008. A scenario of cascading financial institution failures and a full-scale collapse of the financial system was an imminent danger.

Fortunately, the response by the Federal Reserve and the federal government was robust and sustained. The Federal Reserve made clear that it would take any actions necessary to keep the financial system functioning. The federal government injected capital from its Troubled Asset Relief Program into the largest financial institutions to stem the panic. No more systemically important institutions would be allowed to fail. By December 16, the Federal Reserve had cut the target for the federal funds rate to a range of zero to 0.25%. An unprecedented array of spending, lending, and guarantee programs were initiated by the U.S. Treasury and the Federal Reserve, all in an effort to restore credit markets to normal functioning.

Despite the official resolve, credit markets remained severely impaired into early 2009. U.S. Treasury prices rose and yields plummeted in a panic-driven flight to quality. The securitization process came to a standstill, contributing to a collapse in bank lending. Interbank lending rates remained at crisis levels for months. Risk premiums on corporate bonds, especially in financials and below investment grade bonds, reached unprecedented levels by late 2008.

By the early spring of 2009, the U.S. economy and housing market were showing initial tentative signs of stabilization. This led to a sustained rally in risky assets in the spring and summer. By the end of the fiscal year, pricing in the credit markets generally reflected that the threat to the financial system had passed. Significant indigestion remained in areas such as commercial and non-agency residential mortgage-backed securities; the U.S. Treasury's Public Private Investment Program was in the works to help ease these dislocations.

For the fiscal year as a whole, the Barclays Government/Credit Index returned 5.26%. On the positive side, agency-backed fixed rate mortgage securities returned 9.52%. U. S. Treasury securities returned 6.47% and investment grade corporate bonds returned 3.84%. Faring worse, investment grade financial institution bonds returned -1.52%. High yield, or below investment grade, bonds returned -2.40%. Commercial mortgage-backed securities returned -10.13% and home equity asset-backed securities returned -26.52%. Even these figures fail to convey the volatility and illiquidity over the period as all but the safest sectors plunged in value in late 2008, only to rebound strongly in the spring and summer of 2009.

The System's fixed income portfolio went into the financial crisis with a very high quality profile. As dislocations developed in the markets, assets were gradually moved into sectors where investors were being overcompensated for risk. From June 30, 2008 to June 30, 2009, the System's exposure to U.S. government bonds declined from 21% of fixed income assets to 15%, while exposure to corporate bonds rose from 34% to 42%. Exposure to BBB-rated securities, the lowest investment grade rating, rose from 9% to 14% over the same period. The focus continues to be on prudently taking advantage of the opportunities that persist as a result of the financial crisis, while acknowledging the paramount importance of risk control and the economic uncertainty going forward.

EQUITY INVESTMENTS

As of June 30, 2009 the System's public equity investments had a market value of $7.1 billion, representing 60.7% of total assets. The global decline in equities caused the percentage of equities to remain below their 64% target allocation throughout the year. The System divides its public equity investments into two broad categories: domestic and international.

The domestic portfolio had a market value of $5.8 billion as of June 30, representing 49.4% of total assets. The benchmark for the domestic portfolio is the S&P 1500. The S&P 1500 is made up of 3 well known component indices based upon capitalization: the S&P 500 large cap, S&P 400 mid cap, and the small cap S&P 600. The System's domestic equity holdings are comprised of eleven portfolios. Three of the portfolios are internal passively managed portfolios benchmarked to the S&P 500, S&P 400, and S&P 600. The other eight portfolios are managed externally with each representing a specific strategy and measured against an appropriate benchmark. The collective array of portfolios provides diversification by capitalization, manager, style, and strategy.

The market value of international equity holdings as of June 30, 2009 was $1.3 billion representing 11.3% of total assets. The benchmark for international equities during the fiscal year was the Morgan Stanley Capital International (MSCI) EAFE (Europe, Australasia, Far East) Index, which represents the markets of 22 developed countries. Four external managers manage the System's international equities. During the fiscal year international equities increased as a percent of total assets despite the decline in international markets as the System continued to increase its exposure to international equities. Subsequent to fiscal year-end, the benchmark for international equities was changed to the MSCI All-Country World Ex-US (ACWI -Ex US) Index, which represents the markets of 23 developed and 21 emerging market countries. The change better reflects the portfolio's growing diversification and exposure to emerging markets. The System plans to continue increasing the international equity exposure during the coming fiscal year.

EQUITY MARKET OVERVIEW

For the second straight year equity markets the world over suffered steep declines. The Morgan Stanley Capital International (MSCI) World Index declined -29.0%. Returns of domestic stocks as measured by the Standard & Poors' 1500 Index were -26.3%. The MSCI EAFE which measures the returns of international developed markets had a decline of -31.0%. Emerging market returns were similar to those of developed markets as the MSCI Emerging Markets Index declined -27.8%. This was the first time in six years that domestic equity returns outperformed those of the EAFE.

Domestic stocks continued to suffer from problems that originated in the sub-prime mortgage market in 2007 and spread throughout the financial sector and into the broad economy. It became apparent early in the year that the housing market decline was far from over and that the decline in debt obligations backed by mortgages was wreaking havoc throughout the entire financial system. Many prominent financial institutions failed or were acquired to prevent them from failing. Among them were Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac, Wachovia, Washington Mutual, and American International Group. Fearing a collapse of the entire financial system, the Federal Reserve, Treasury, and Congress moved aggressively to restore confidence and provide liquidity.

The distress in the financial system spread to other parts of the economy leading to a loss of consumer confidence and higher unemployment. The US had been in recession since December 2007. For the fourth quarter of 2008 and the first quarter of 2009, Gross Domestic Product contracted more than 5% for two quarters in a row for the first time since the Great Depression. Unemployment rose steadily from 5.6% in June 2008 to 9.5% in June 2009. These factors fueled further declines in stock prices into March 2009. As the market reached a bottom on March 9, 2009, the S&P 1500 had suffered a decline of -46.5%. From this point of maximum pessimism, the S&P 1500 rebounded almost 38% by June 30. Although welcome, this rebound was largely a bounce in lower quality stocks which had suffered the worst during the crisis. Higher quality stocks participated less in the market's recovery.

For the year, domestic stock returns were equally dismal across capitalization sectors and style categories. The large cap S&P 500 Index was down -26.2%, the mid cap S&P 400 declined -28.0%, and the small cap S&P 600 was down -25.3%. The Energy sector which was the top performing sector last year was the worst performing sector this year as crude prices fell sharply from last year's highs. The S&P Energy sector declined -43% for the year.

The fiscal year was one of extreme turmoil in the markets, leading to an extraordinary level of government intervention. The government "bailed out" a number of financial institutions, arranged for the acquisition of troubled companies, and provided enormous monetary and fiscal stimulus. This has led to an intense debate over the appropriate role of government in the financial system. Hot topics include regulation of systemic risk, executive pay schemes, and heretofore unregulated financial products. Comprehensive reform of financial system regulation is on the political agenda.

The international equity markets were affected by the same factors as the U.S. market. European banks, particularly, took massive write-downs on mortgage-related securities. The crisis in the credit markets and the resulting economic downturn were truly global, affecting markets everywhere. Emerging markets, as usual, were more volatile, but outperformed developed markets for the fiscal year. Over the five-year period ended June 30, 2009, the MSCI Emerging Markets Index generated an annualized return of 15.1% versus 2.8% for the developed markets MSCI EAFE Index.

Although China is still considered an emerging market country, it ranks as the world's third largest economy. While many countries saw their economic growth slow or turn negative, China's economy grew almost 10%. The global downturn would have been worse had it not been for China. China and its markets and economy will continue to be a focus for investors.

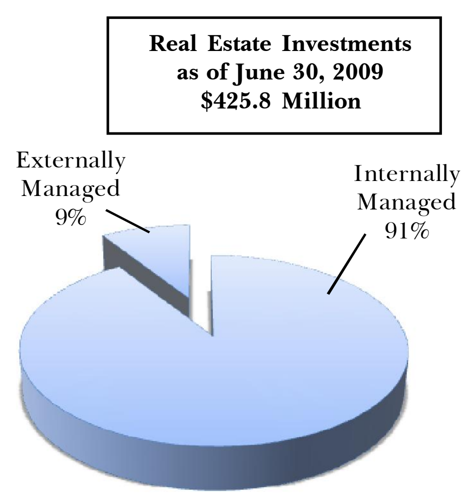
REAL ESTATE

The System's real estate investments had a market value of $425.8 million as of June 30, 2009, representing 3.6% of total assets. The System's investments in real estate are intended to provide attractive long-term returns, generate reliable cash flow, and provide diversification, thereby reducing the volatility of the overall investment portfolio.

The System's real estate exposure is currently provided through two portfolios. The System maintains an internally managed portfolio of directly owned properties under long-term lease agreements with high credit quality tenants. The System is also invested in a commingled real estate fund (PRISA FUND), which is managed by Prudential Real Estate Investors. This fund is a core real estate equity fund which invests primarily in existing income-producing properties with strong cash flow and the potential for capital appreciation. The fund is diversified across several property types including office, retail, industrial, apartment, self-storage, and hotel.

REAL ESTATE OVERVIEW

The commercial real estate market remains under pressure from excessive use of leverage and falling occupancy rates. Continued heavy job losses are taking a toll on market fundamentals in all property types, causing vacancies to rise and rents to fall. Debt is scarce and expensive, and equity investors remain on the sidelines waiting for greater clarity on asset values. We expect 2009 to be a year of continued dislocation and volatility in the real estate industry. We are in the midst of a great unwind, where market participants of all types and sizes are seeking to get their capital out of the leveraged structures of the past and flee to relative safety to ride out this market cycle. Weaker fund managers may not survive the market turmoil and uncertainty and, as in cycles past, new players will arise to take their place. Established fund managers that were

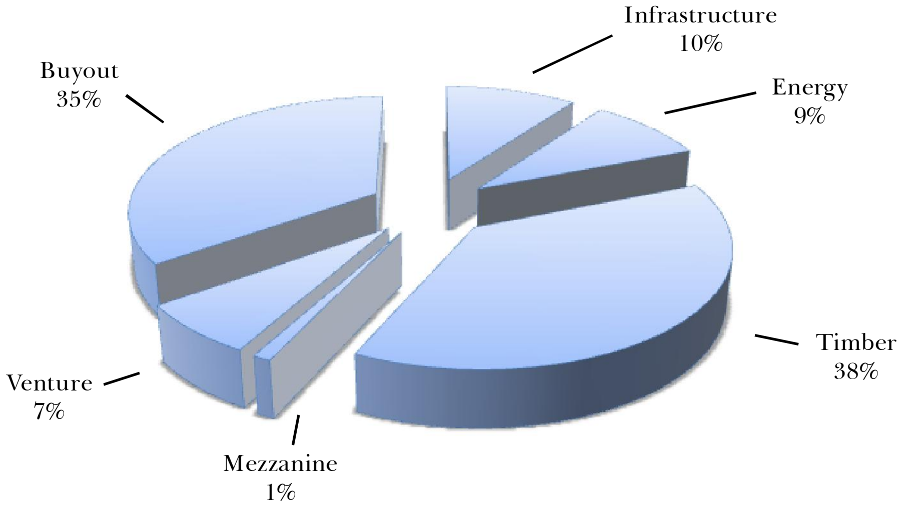


prudently financed and well diversified will have the wherewithal to absorb their losses and the savvy to take advantage of the buying opportunities available in a depressed market.

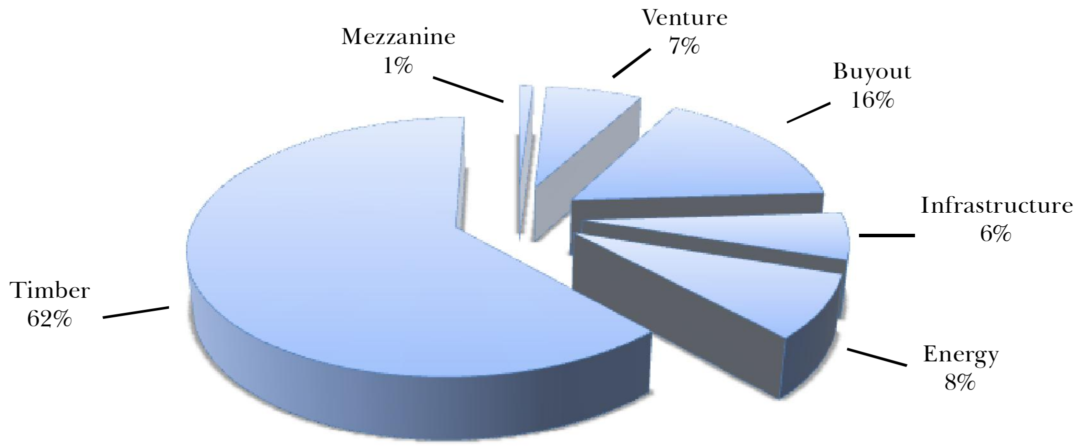
ALTERNATIVE ASSETS

As of June 30, 2009, the System had committed $530 million to alternative investments and had funded $177 million of those commitments. The percentage of the System's portfolio in alternative assets was 1.5%. The System's current alternative asset portfolio consists of private equity investments and timberland.

Alternative Assets Committed
as of June 30, 2009
$530 Million



Alternative Assets Funded
as of June 30, 2009
$177 Million



PRIVATE EQUITY

The System has exposure to venture, buyout, infrastructure, energy, and mezzanine via participation in limited partnerships as well as investments in funds of funds. The System is in the early stages of its private equity investment program, which it intends to grow with a disciplined plan of commitments over the next several years. The System looks to diversify its private equity portfolio by firm, country, strategy, and vintage year. The System will achieve vintage year diversification by building out the portfolio with disciplined levels of commitments over time. The System's commitment to any given partnership shall not exceed 20% of the partnership's total commitments.

The Board and staff understand that private equity (along with many other forms of alternative assets) are illiquid and have a long-term holding period. When added to a portfolio with other publicly traded assets, this asset class can help to diversify and reduce risk for the System's overall portfolio while enhancing returns. Private equity returns for the first several years of a partnership's life are routinely negative due to the J-curve effect. Positive returns are typically realized only several years into a partnership's existence.

PRIVATE EQUITY MARKET OVERVIEW

The private equity market is still reeling from the credit crisis and the lack of financing available to both established and new funds. Additionally, as the flow of distributions has slowed, with the IPO market all but shut down, many limited partners are quite content to see that the capital calls have slowed down as well. As the markets begin to heal we should expect to see capital calls pick up, although distributions will probably remain subdued for the next twelve to eighteen months. There has already been some improvement in the middle market space where deals do not rely on as much leverage as in the large buyout space. As the global economy improves and the ability of general partners to secure financing returns, we should see the number of deals steadily increase although with less leverage than in the past.

TIMBERLAND

In addition to private equity, the System has invested in timberland in the alternative asset class. As of June 30, 2009, the System owns approximately 73,000 acres of timberland outright and has a 7.15% interest in a commingled fund that holds 97,938 acres of timberland. Timberland is, by nature, a long term investment as our anticipated time horizon in this asset category is generally a minimum of ten to fifteen years. Timberland provides valuable diversification, current income, and a hedge against inflation. Due to the low correlation of returns with other asset classes, timberland investments should lower the overall volatility of the System's portfolio. Timberland should earn real returns comparable to traditional equity investments with volatility between equities and fixed income over the long-term.

The System diversifies its timberland investments by geography, species of trees, and maturity of timber stands. Investment returns from timberland are primarily driven from net cash flow generated from the sale of trees (referred to as stumpage sales) and capital appreciation from the biological growth of the trees. Both of these return factors depend to some degree upon the direction of the forest commodity prices (paper goods and lumber products). There can also be gains from the timely sale of timberland from the conversion of timberland into higher and better uses, such as vacation property sales.

TIMBER MARKET OVERVIEW

The downturn in the general economy and the poor housing market continue to negatively affect both global and national timber markets. Pulp markets are currently rallying, but improvements are being propelled by Chinese demand and the foundations of the rally are tenuous. The upside is that the U.S. housing market has seen a reduction in excess supply during this period. Furthermore, low interest rates and attractive home prices have helped spur this improvement. As the global economy recovers, we should see a more sustainable recovery in the timber markets going forward.

PORTFOLIOS
MARKET VALUES **
June 30, 2009

	Internally Managed
Cash Equivalents	
Cash Collections Fund	$ 134,219,595
Fixed Income*	
Broad Market Bond Fund	1,003,917,492
Long Term Bond Fund	568,648,185
Intermediate Bond Fund	426,220,823
Internal Bond Fund	198,847,360
Life Insurance Trust	87,289,911
Scholarship Fund	495,865
Tax Shelter Fund	474,361
Equity	
S&P 500 Index Fund (Large Cap)	2,166,825,934
S&P 400 Index Fund (Mid Cap)	285,929,450
S&P 600 Index Fund (Small Cap)	217,036,883
Real Estate	
Internally Managed Fund	389,472,533
Subtotal	**5,479,378,392**

	Externally Managed
Fixed Income*	
Galliard Capital Management	737,677,688
Ft. Washington Broad Market	640,817,049
Ft. Washington Bond Index Plus	200,746,953
Domestic Equity	
Todd-Veredus (Large Cap Core)	1,144,375,526
UBS (Large Cap Value)	699,321,563
GE Asset Mgmt. (Large Cap Growth)	512,100,470
Wellington (Large Cap Core)	357,996,378
Wellington (Mid Cap Core)	196,803,445
Wellington (Small Cap Core)	92,845,858
UBS (130/30)	76,046,516
Todd-Veredus Opportunity Fund	34,891,979
International Equity	
UBS International	429,263,724
Todd-Veredus International	409,571,797
Baillie Gifford EAFE Alpha	259,859,950
Baring Focused International Equity	245,698,127
Real Estate	
Prudential PRISA Fund	36,273,517

continued ...

PORTFOLIOS continued ...
JUNE 30, 2009

Alternative Investments	
Molpus Woodlands Group	
Lake Superior Timberlands LLC	91,625,796
Hancock Natural Resources Group	
Bluegrass LLC	24,973,575
Riverstone Group Fund IV	14,697,743
KKR 2006 Fund	13,297,106
Alinda Infrastructure Fund II	11,108,850
Chrysalis Venture Fund III	7,374,352
Ft. Washington Private Equity Fund VI	6,022,197
Ft. Washington Private Equity Fund V	4,989,322
CapitalSouth Fund III	2,000,000
KKR European Fund III	1,241,503
Subtotal	6,251,620,984
Total Assets	**$ 11,730,999,376**

* The aggregate value of fixed income portfolios excludes purchased interest of $1,060,537 as of June 30, 2009.

** Detailed information concerning these market values of all KTRS investments is available upon request.

Investment Summary
Fair Market Value
June 30, 2009

Type of Investment	Fair Value 07/01/08	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/09
Cash Equivalents	$ 388,772,500	$ 36,018,598,600	$ 1,331,900	$ 36,151,803,000	$ 256,900,000
Fixed Income	4,279,174,200	899,655,200	50,208,400	1,443,201,400	3,785,836,400
Equities	9,029,380,800	2,546,472,200	(2,435,392,000)	2,054,214,000	7,086,247,000
Real Estate	431,693,800	6,758,300	(9,736,100)	2,970,000	425,746,000
Alternative	104,787,600	76,647,400	1,651,500	5,756,000	177,330,500
TOTAL	**$ 14,233,808,900**	**$ 39,548,131,700**	**$ (2,391,936,300)**	**$ 39,657,944,400**	**$ 11,732,059,900**

Contracted Investment
Management Expenses
Fiscal Year 2008-09
(in thousands of dollars)

Investment Manager Fees	Assets Under Management	Expense	Basis Points (1)
Balanced Manager	$ 2,430,403	$ 1,233	
Equity Manager(s)	2,869,936	6,482	
Fixed Income Manager	737,678	353	
Real Estate	36,274	301	
Private Equity Fees (2)	177,330	6,786	
Total	$ 6,251,621	$ 15,155	24.2
Other Investment Services			
Custodian Services	$ 11,730,999	$ 468	0.4
Consultant Fees		361	
Legal & Research Fees		43	
Subscriptions/Services		295	
Total		1,167	
Grand Total		**$ 16,322**	**13.9**

1 – One basis point is one hundredth of one percent or the equivalent of .0001.
2 – Private equity fees are either withheld from the Fund operations or paid by direct disbursement, depending on contract terms.

Transaction Commissions
Fiscal Year 2008-09

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
Allen & Co	300	252.00	0.8400
Avondale Partners, LLC	5,100	204.00	0.0400
BNY ConvergEx Group	1,482,100	55,301.47	0.0373
Bank of America	680,885	16,350.35	0.0240
Barclays	4,181,153	87,999.06	0.0210
Bass / Baypoint Trading	146,910	4,539.30	0.0309
Blair, William & Co	14,300	572.00	0.0400
Boenning & Scattergood	226,846	5,000.54	0.0220
CIBC Oppenheimer Worldmarket	64,900	2,596.00	0.0400
Cantor Fitzgerald & Co	74,400	1,876.00	0.0252
Citigroup Global	13,213,592	198,122.64	0.0150
Citigroup-Huntington	3,658,100	135,514.50	0.0370
Citigroup-Louisville	3,687,600	134,905.50	0.0366
Cowen & Co	76,750	2,195.00	0.0286
Credit Suisse Sec. LLC	3,878,934	126,433.92	0.0326
Crowell Weedon & Co	90,370	3,422.10	0.0379
D A Davidson & Co	25,700	1,028.00	0.0400
Dahlman Rose & Co LLC	23,220	928.80	0.0400
Deutsche Bank	116,800	4,672.00	0.0400
First Kentucky Securities Corp	2,940,900	107,074.50	0.0364
Fox Pitt Kelton Inc	122,000	4,880.00	0.0400
Freidman Billings	156,100	5,821.76	0.0373
Goldman Sachs	5,554,498	148,809.47	0.0268
Green Street Advisors	18,300	732.00	0.0400
Heflin & Co	67,300	2,692.00	0.0400
Hudson Securities	55,200	1,208.00	0.0219
ICAP Corporates LLC	166,360	6,654.40	0.0400
ING Financial Mkts LLC	20,300	3,045.00	0.1500
ISI Group	3,667,300	134,023.00	0.0365
Instinet	119,180	2,553.80	0.0214
Investment Technology Grp	42,068,307	604,746.85	0.0144
J.J.B. Hilliard, W.L. Lyons	3,625,200	133,259.50	0.0368
JMP Securities	56,400	1,128.00	0.0200
JP Morgan & Chase	499,756	64,147.06	0.1284
Jefferies & Co.	1,866,500	72,795.70	0.0390
Keefe Bruyette & Woods	78,200	5,943.50	0.0760
Kellogg Partners Inst Svs	38,300	861.75	0.0225
Keybanc Capital	60,100	1,202.00	0.0200
Knight Equity Markets	147,540	4,335.20	0.0294
Lazard Freres & Co.	5,272,311	188,325.88	0.0357
Leerink Swann & Co.	12,700	508.00	0.0400
Lehman Brothers	69,250	1,070.50	0.0155
Lexington Investment Co.	1,463,152	54,410.82	0.0372
Liquidnet Inc	5,423,944	80,701.55	0.0149
MacQuarie Securities Inc	22,500	900.00	0.0400
Merrill Lynch	13,940,621	348,302.92	0.0250
Miller Tabak & Co. LLC	149,960	5,314.40	0.0354
Morgan Keegan	2,989,100	109,285.00	0.0366
Morgan Stanley	11,810,089	243,551.75	0.0206

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
Murphy & Durieu	162,200	3,571.25	0.0220
Needham	61,864	2,474.56	0.0400
Pipeline Trading	15,200	210.50	0.0138
Piper Jaffray	142,400	5,696.00	0.0400
Pulse Trading	253,540	5,616.34	0.0222
R W Baird	33,200	1,328.00	0.0400
RBC Capital Markets	99,900	3,094.00	0.0310
Raymond James & Assoc	5,915,400	215,239.50	0.0364
Ross Sinclaire & Assoc	1,503,400	54,070.50	0.0360
Sandler O'Neill	80,100	7,692.50	0.0960
Sanford C Bernstein	539,540	7,180.40	0.0133
Simmons & Co	25,900	1,036.00	0.0400
State Street Global	85,700	2,571.00	0.0300
Sterne, Agee & Leach	20,100	804.00	0.0400
Stifel, Nicolaus & Co	2,982,700	109,021.50	0.0366
Stifel, Nicolaus & Co-Louisville	476,700	16,684.50	0.0350
Susquehanna Brokerage	50,600	1,037.50	0.0205
Thomas Weisel Partners	241,280	5,232.20	0.0217
UBS/Paine Webber Securities	7,827,522	82,488.31	0.0105
UBS/Paine Webber-Louisville	6,736,963	240,416.21	0.0357
Wachovia / First Clearing Corp	11,300	1,145.50	0.1014
Weeden & Co	3,836,400	139,810.00	0.0364
GRAND TOTAL	**165,231,237**	**4,026,617.76**	**0.0244**

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $.035 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2008-09, the System bought small capitalization IPOs that generated $140,411 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $4,026,618. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.03 per share or less. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through BNY ConvergEx, Merrill Lynch (Citation Group) and Barclays Capital. Trading commissions of $43,454 were associated with third party research obligations. The primary research providers were: Bloomberg, Interactive Data, Rogers Casey, RiskMetrics Group, QED Financial Systems, Standard & Poor's, and Thomson Financial.

Ten Largest Stock Holdings Ranked (1) (2)
by Market Value
June 30, 2009

Rank	Name	Market Value	Percentage of Equities
1	Microsoft	134,937,797	2.221
2	Exxon Mobil Corp	108,947,744	1.793
3	A T & T Inc	90,405,205	1.488
4	Chevron Corp	87,487,564	1.440
5	PepsiCo Inc	83,848,625	1.380
6	J P Morgan Chase & Co	81,600,125	1.343
7	Qualcomm Inc	81,209,258	1.336
8	Cisco Systems Inc	77,873,411	1.281
9	Johnson & Johnson	72,014,107	1.185
10	Wells Fargo & Co	71,311,469	1.173

Top Ten Fixed Income Holdings (2)
by Market Value
June 30, 2009

Rank	Description	Maturity	Coupon	Par	Market Value	Percent of Fixed Income
1	U S Treasury Notes	01/15/14	2.000	75,000,000.00	88,521,137.25	2.339
2	U S Treasury Bonds	08/15/23	6.250	66,000,000.00	80,396,580.00	2.124
3	FNMA Notes	11/15/21	5.625	54,000,000.00	56,514,240.00	1.493
4	U S Treasury Bonds	02/15/19	2.750	39,000,000.00	36,525,840.00	0.965
5	FNMA Notes	01/15/30	7.125	25,000,000.00	32,242,250.00	0.852
6	U S Treasury Notes	11/15/13	4.250	29,000,000.00	31,338,270.00	0.828
7	U S Treasury Notes	08/15/09	6.000	28,000,000.00	28,199,080.00	0.745
8	U S Treasury Bonds	08/15/29	6.125	22,000,000.00	27,396,820.00	0.724
9	John Deere Cap Corp	09/09/13	4.900	25,000,000.00	25,893,250.00	0.684
10	CMO FHR 3095 JE	07/15/31	5.500	23,604,000.00	24,379,901.25	0.644

(1) Includes only actively managed separate accounts.
(2) Detailed information concerning these values along with book values and cost values of all KTRS investments is available upon request.

PROXY VOTING AND CORPORATE BEHAVIOR

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by federal, state, and local laws. The Board has adopted the following position on corporate behavior:

The Board's stated fiduciary duty is to obtain the highest return for the Fund commensurate with acceptable levels of risk. This implies that non-financial considerations cannot take precedence to pure risk/return considerations in the evaluation of investment decisions. However, action taken by the Fund as a shareowner can be instrumental in encouraging action as a responsible corporate citizen by the companies in which the Fund has invested.

The Board expects the managements of the companies whose equity securities are held in the Fund's portfolio to conduct themselves with propriety and with a view toward social considerations. A level of performance above minimum adherence to the law is generally expected. If any improper practices come into being, the Board expects corporate management to move decisively to eliminate them and effect adequate controls to prevent recurrence.

On the other hand, the Board does not intend to supplant the duties which are the responsibility of federal or state regulatory agencies, such as the Equal Employment Opportunity Commission, the Environmental Protection Agency, the Occupational Safety and Health Agency, the Nuclear Regulatory Commission, the Securities and Exchange Commission, and others which are covered by the laws of the United States Government or the State of Kentucky.

Should satisfaction of the Board's criteria by any company not be adequate, the Board will consider what action to take, which may include, but not be limited to, correspondence with the company, meetings with company officials, sponsoring of shareholder resolutions or, as a last resort, liquidation of the System's holdings in the company, if the sale is consistent with sound investment policy.

SECURITY LENDING

The System operates a security lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities and select stocks and bonds are the types of securities loaned. The System's sub-custodian, The Bank of New York Mellon, acts as lending agent in exchanging securities for collateral. The collateral, at the time of the loan, has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral consists of cash, marketable U.S. Government securities, and selected marketable U.S. Government agency securities approved by the System.

Cash collateral is invested in short term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The System cannot pledge or sell collateral securities unless the borrower defaults. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. The weighted average maturity of cash collateral investments is typically two days. The System has no credit risk exposure to borrowers, since the amounts the System owes borrowers exceeds the amounts the borrowers owe the System.

Security lending programs can entail considerable interest rate risk and credit risk. The System has structured its program to minimize these two main categories of risk. The interest rate risk is managed, as mentioned above, by limiting the term of cash collateral investments to several days. The credit risk is controlled by investing cash collateral in securities with qualities similar to the creditworthiness of lent securities.

KENTUCKY INVESTMENTS

The System is ever mindful of its impact on the Commonwealth's economy. For the fiscal year ended June 30, 2009, approximately $1.2 billion in defined benefit pension payments were distributed to annuitants living in Kentucky. Approximately $329 million of the System's investments directly impact the Commonwealth. These investments include: pools of single-family mortgages in Kentucky; financing for multi-family housing; bonds issued by public agencies of the Commonwealth and those of local municipalities; direct ownership of commercial real estate, and investments in the bonds of Kentucky-based corporations. This excludes hundreds of millions in equity investments in companies which have an impact on the Commonwealth's economy but receive earnings from world-wide operations. Fiduciary duty requires that investments be made solely for the benefit of the System's members and annuitants. Investments which benefit the Commonwealth's economy are made only when fully consistent with this fiduciary duty.

PROFESSIONAL SERVICE PROVIDERS

Investment Consultants
Becker, Burke Associates, Inc.
Ennis Knupp + Associates

Investment Custodian/Subcustodian
Farmers Bank and Capital Trust Co.
The Bank of New York Mellon

Fixed Income Managers
Galliard Capital Management
Ft. Washington Investment Advisors

Domestic Equity Managers
Todd-Veredus Asset Management LLC
UBS Global Asset Management
Wellington Management Company
GE Asset Management

International Equity Managers
Todd-Veredus Asset Management LLC
UBS Global Asset Management
Baring Asset Management, Inc.
Baillie Gifford

Real Estate Managers
Prudential Real Estate Investors

Alternative Investment Managers
Molpus Woodlands Group
Hancock Natural Resources Group
Kohlberg Kravis Roberts & Co.
Chrysalis Ventures
Ft. Washington Private Equity Investors
Alinda Capital Partners LLC
Riverstone Holdings LLC
CapitalSouth Partners